



2005 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

Terry L. McCoy



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Preface

This is the seventh edition of the *Latin American Business Environment Report (LABER)*. Latin America is in the third year of a strong economic recovery, but it is a region of considerable volatility, and the question arises whether we are witnessing another stop-go cycle or long-term sustained growth. There are also questions regarding political developments and their consequences for business.

LABER is designed to help answer these and other questions regarding the environment for business and investment in Latin America. The report presents an overview of developments in the region over the past 12 months and then examines in more detail the 20 largest economies. It does not make recommendations, but attempts to provide information and analysis useful for making businesses and investment decisions.

As with past reports, the *2005 LABER* draws on a variety of publicly available sources to monitor the business relevant events in the region. This and previous reports are available at <http://www.latam.ufl.edu/publications/publisting.html>. The report may be cited without permission, but users are asked to acknowledge the source.

LABER is a publication of the Latin American Business Environment Program in the Center for Latin American Studies at the University of Florida. The program is dedicated to making the Latin American expertise and resources of the University available to the business community through the training of students, conferences and workshops, research, consulting and publications.

The Center for International Business Education and Research in the Warrington College of Business Administration also supports the Latin American Business Environment Program including publication of the *2005 LABER*. Paolo Spadoni and Meghan Reynolds assisted me in its preparation, and Charles Wood provided useful editorial suggestions. I alone, however, am responsible for the content and analysis.

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2005 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

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EXECUTIVE SUMMARY

Entering the final quarter of 2005, the environment for business and investment in Latin America is attractive. By the end of the year, the region will have experienced 30 consecutive months of economic growth – with 2004 producing the highest regional growth rate in 25 years. Equally encouraging is the fact that growth has not triggered an increase in inflation, which remains at historically low levels. Although prospects are good for the positive economic performance to continue through 2006 – making the current growth cycle the most robust in recent decades – the outlook is clouded by the sharp upturn in oil prices and the large number of countries holding national elections before the end of 2006.

Individual environments are largely but not uniformly positive. The table below categorizes each of the 20 Latin American countries profiled in this report according to the overall character of its environment – attractive, problematic or mixed – in 2004 and 2005, and indicates whether the environment improved (↑), deteriorated (↓) or remained unchanged (=) during the year. The final column is the outlook for 2006.

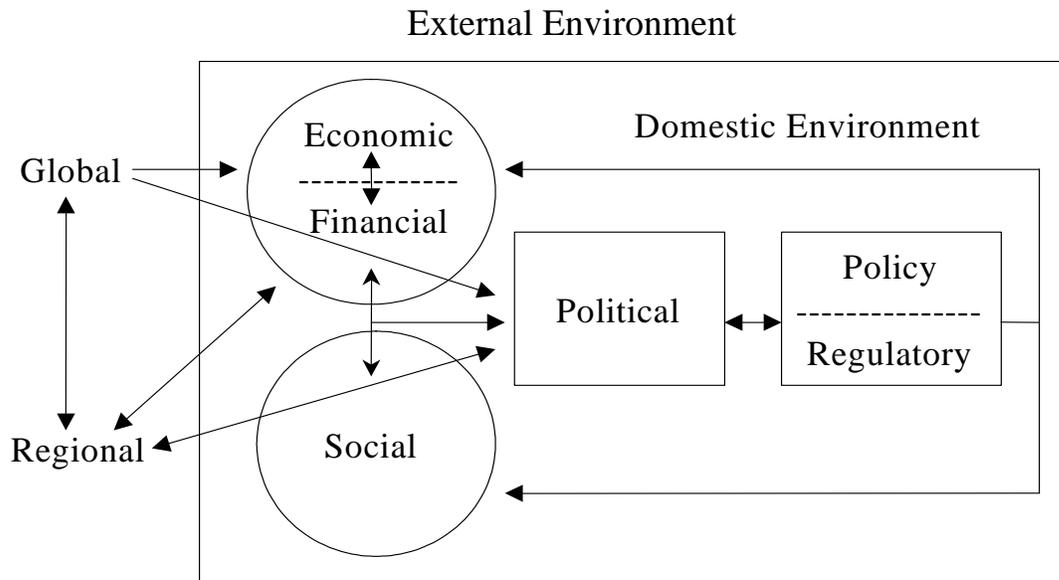
	2004 Environment			2005 Environment			2006 Outlook
	Attractive	Problematic	Mixed	Attractive	Problematic	Mixed	
Mexico	↓↑			=			↓↑
Costa Rica	=			↓			↓↑
El Salvador			↑			=	=
Guatemala			↑			↑	↑
Honduras			↑			↑	=
Nicaragua			↑			↓	↓
Panama			↑			↑	↑
Dom Rep		↓				↑	↑
Jamaica			↑			↑	=
Trin & Tob	↑			↑			↑
Bolivia		↓			↓		↓
Colombia			↑			↑	=
Ecuador			=		↓		↓
Peru			=			↑	=
Venezuela		↑			↑		=
Brazil			↓↑			↓	=
Argentina		=				↑	=
Chile	↑			↑			↑
Paraguay		=			↑		=
Uruguay			↑			↑	=
Total	4	5	11	4	4	12	

2005 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

INTRODUCTION

The Latin American business environment continues to be favorable. As it enters the last quarter of 2005, the region is completing a third year of economic recovery sustained by international commodity markets, favorable financing and rising domestic consumption. Political developments in some countries of the region are nonetheless cause for concern. The framework shown in Figure 1 was developed to systematically assess the regional and national business environments. The 2005 *LABER* uses the framework to evaluate developments over the past 12 months and to assess the prospects that the current recovery will turn into a long-term growth cycle. Alternatively the recovery may only be the latest of the boom-bust cycles that have long defined Latin America's political economy.

Figure 1
Latin American Business Environment: A Model



The report is divided into three parts. Part I summarizes major regional developments during 2004 and into 2005. Part II presents profiles of the 20 largest markets, grouped by geographic sub-regions and regional trading blocs (see Map and Table 1). Part III assesses the outlook through 2006 with the 20 countries arranged



this time according to the overall attractiveness of their business environments. There are 12 tables at the end of the report that contain country level data and regional averages on key economic, social and political indicators. There is also a list of selected sources on Latin American business news.

I. REGIONAL OVERVIEW

EXTERNAL ENVIRONMENT

Over the past 18 months the external environment has been favorable to Latin America, especially South America, as global commodity prices rose and interest rates remained low. Foreign direct investment (FDI) in emerging markets has also accelerated. Because of low domestic savings and low investment rates, Latin America depends on the inflow of foreign capital to finance growth. Growing openness and trade dependency – only partially offset by export diversification – renders the region’s economies even more sensitive to fluctuations in terms of trade.

Global Developments ↑¹

- ***Positive terms of trade***
Thanks to a sharp rise in global commodity prices, Latin America is enjoying the best terms of trade in more than a decade (Figure 2), but the trend was not uniform across the region. The energy exporting economies of the Andean region profited from record high oil prices, while the terms of trade for the Central American countries, which import oil and export light manufactures, were stagnant (Table 2). Mexico’s performance reflects its mixed export profile. U.S. growth is the most important determinant of global economic trends, but China’s dramatic emergence as a market for Latin American raw materials, and as a competitor for manufactured export markets, continues. The Chinese conducted diplomatic offensives to strengthen economic ties with Latin America. Revaluation of the Chinese yuan in July had no appreciable short run impact on Latin America.
- ***Favorable global capital markets***
FDI, up in 2004 after four years of decline (Figure 3), is growing even more rapidly in 2005, although Latin America has lost ground to other emerging markets. Low interest rates and improved risk spreads facilitate sovereign and corporate bond placements and restructuring. Honduras, Nicaragua and Bolivia stand to benefit from the G-8 debt reduction initiative.

¹ Symbols are used here to suggest overall trends over the past 12 months: ↑ improving; ↓ declining; = no significant change.

Figure 2

Terms of Trade for Latin America and the Caribbean, 1995-2004

(Source: CEPAL 2005)

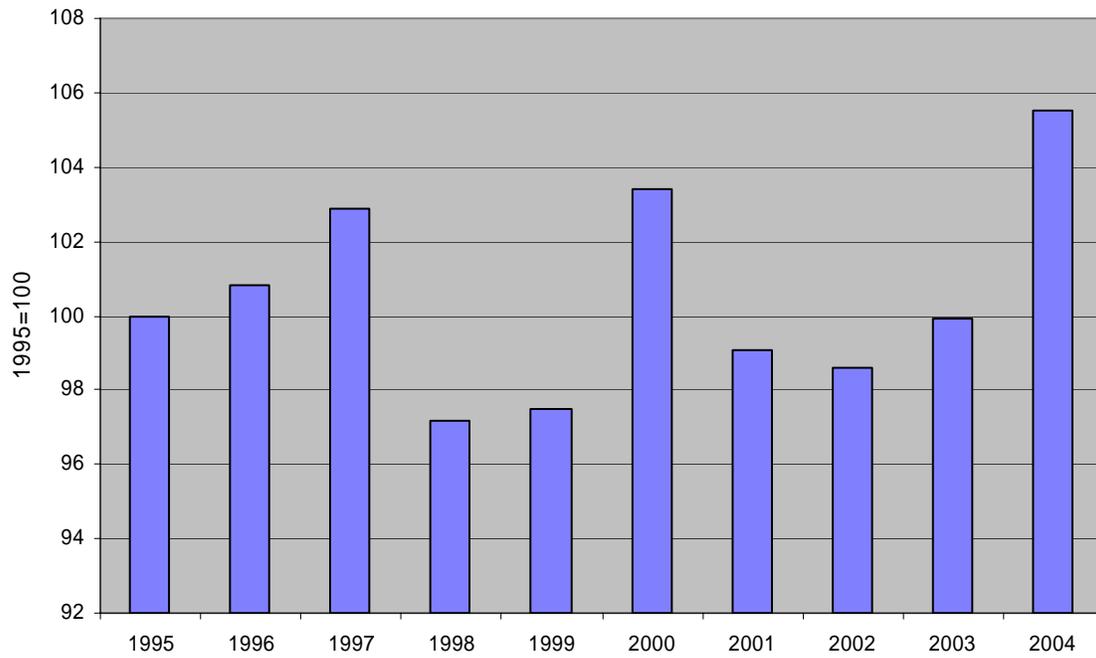
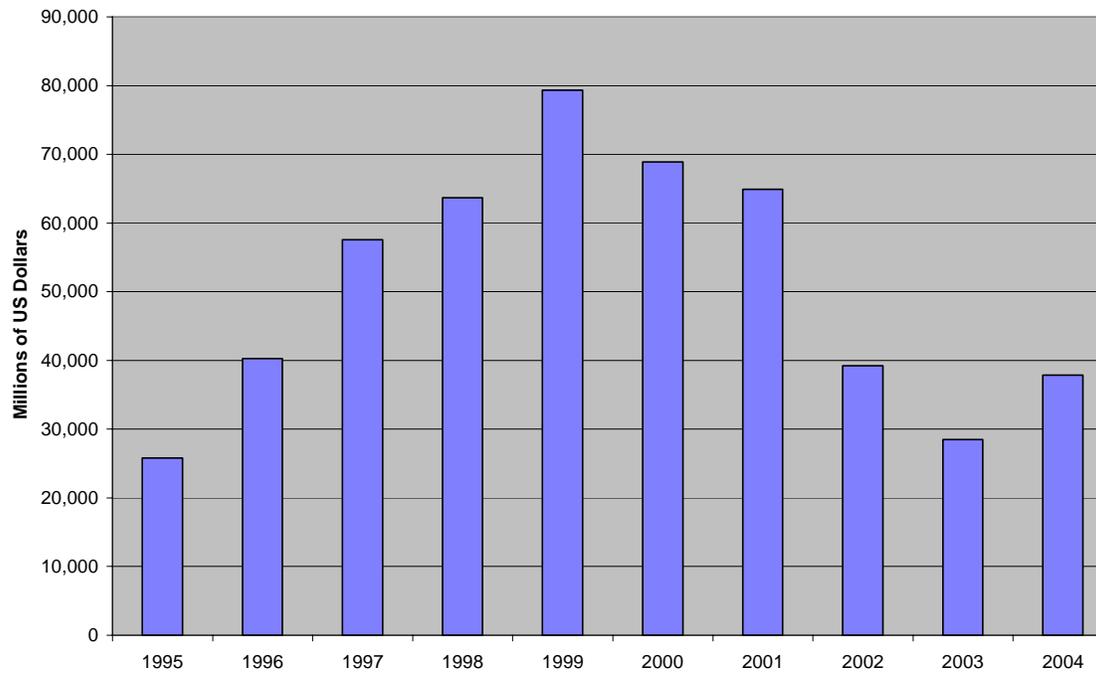


Figure 3

Net Foreign Direct Investment in Latin America and the Caribbean, 1995-2004

(Source: CEPAL 2005)



- ***Important World Trade Organization rulings***
If implemented, the WTO ruling rejecting proposed European Union tariff on banana imports would favor Latin America banana exporters but hurt those in the Caribbean. WTO rulings on cotton and sugar favored the Latin American position against those of the U.S. and E.U., but disagreement over agricultural subsidies continues to hold up the Doha round of WTO negotiations, which have been stalled since August 2003.

Regional Developments=

- ***Only limited progress in hemisphere trade negotiations***
U.S. congressional approval of the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) keeps regional trade talks alive, but the razor thin majority suggests that it will be difficult to restart the Free Trade Area of the Americas process, stalled since November 2003. Doubt surrounding the outcome of negotiated agreements makes it easier for the opponents of hemispheric free trade to drag their feet. The next test facing the hemispheric trade agenda comes from U.S-Andean free trade negotiations. Will they be successfully concluded? If so, will the U.S. Congress ratify the agreement?
- ***U.S-Latin American relations drifting***
The Bush administration made an effort to re-engage with the hemisphere following the president's re-election, but it never gained momentum. The growing rift between Washington and the Chávez regime in Venezuela has the potential to further polarize Inter-American relations by forcing Latin American governments to choose sides.

DOMESTIC ENVIRONMENT

Economic and Financial Performance ↑

The Latin American economy performed well in 2004, and the outlook for 2005 is positive. The region is enjoying the longest period of growth in ten years. Revived financial markets complement economic advances.

- ***2004 economic growth highest in 25 years***
The forecast of 4.3% for 2005 (Figure 4) is better than any year since 1997, except last year, and all of the 20 countries in this report are expected to grow for the second year in a row (Table 4).
- ***Inflation continues decline***
Regional rate has dropped for third year in row (Figure 5), and only three of the 20 countries are predicted to finish 2005 with double digit inflation (Table 5).

- Stronger capital markets**
 Equity markets, which did very well in 2004, are up again in 2005, thanks in part to pension funds now investing in stocks and private companies again issuing initial public offerings. Debt financing is also up. Banks have increased commercial lending and consumer credit. Finally, overseas remittances reached a record \$48.8 billion in 2004.
- External performance strong**
 Favorable terms of trade have generated strong export growth and current account surpluses (Figure 6), reduced debt burdens and stable currencies. Exports increased in 19 of the 20 countries (Table 6). Total external debt and the debt/export ratio were both down in 2004 (Figure 7), although more than half of the countries have large foreign debt loads (Table 7 and 8). In all but six countries local currencies have appreciated against the dollar since the beginning of 2004 (Table 9).

Figure 4

Regional GDP Growth Rates for Latin America and the Caribbean, 1990-2005
 (Source: CEPAL, December 2004)

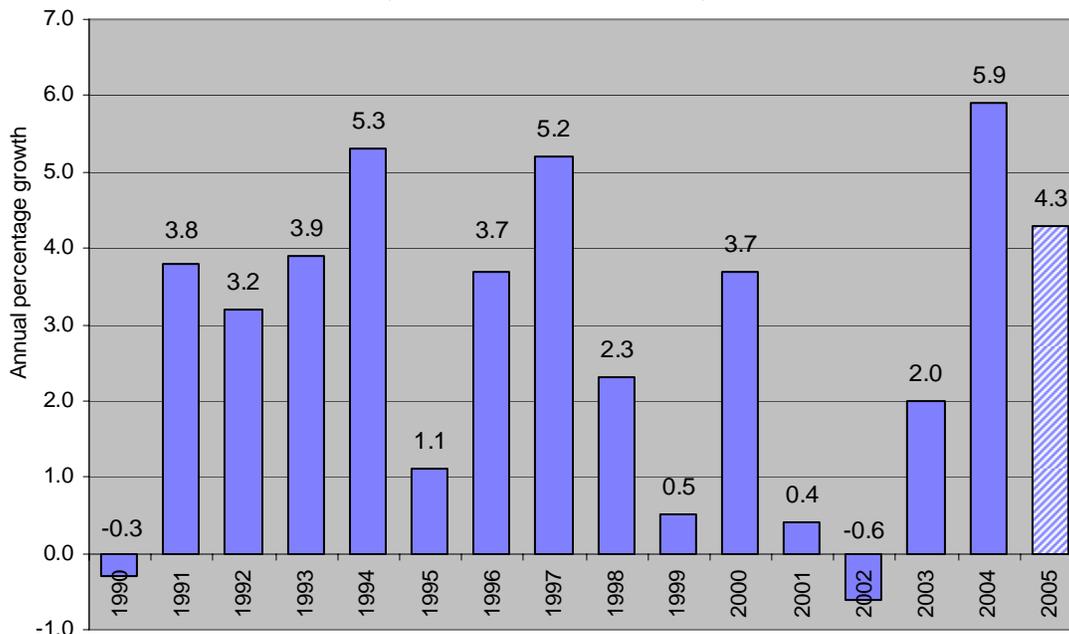


Figure 5

Average Annual Inflation Rate for Latin America and the Caribbean, 1995-2005
(Source: CEPAL 2005)

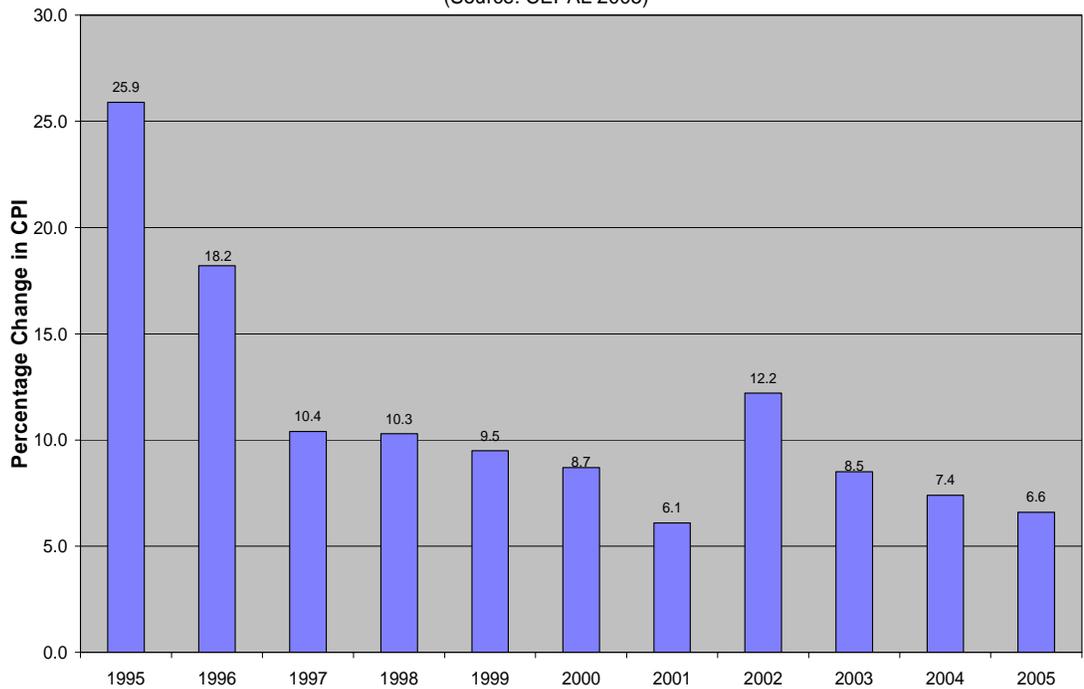


Figure 6

Exports and Imports of Goods and Services in Latin America and the Caribbean, 2001-2004
(Source: CEPAL 2005)

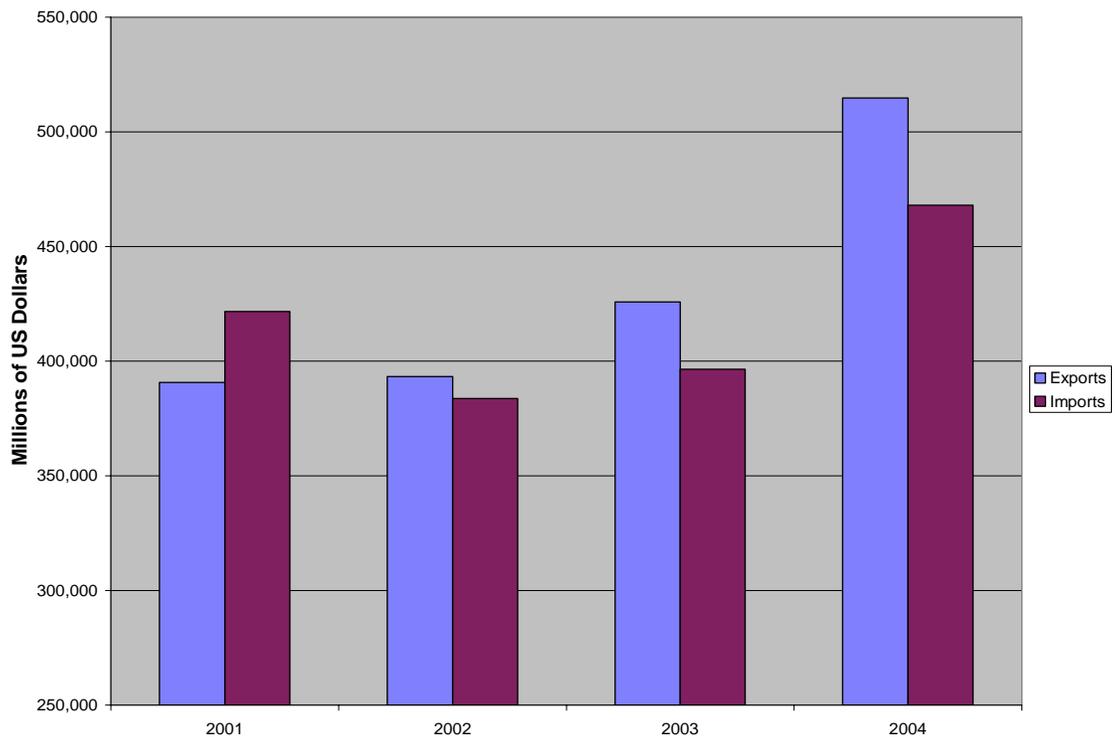
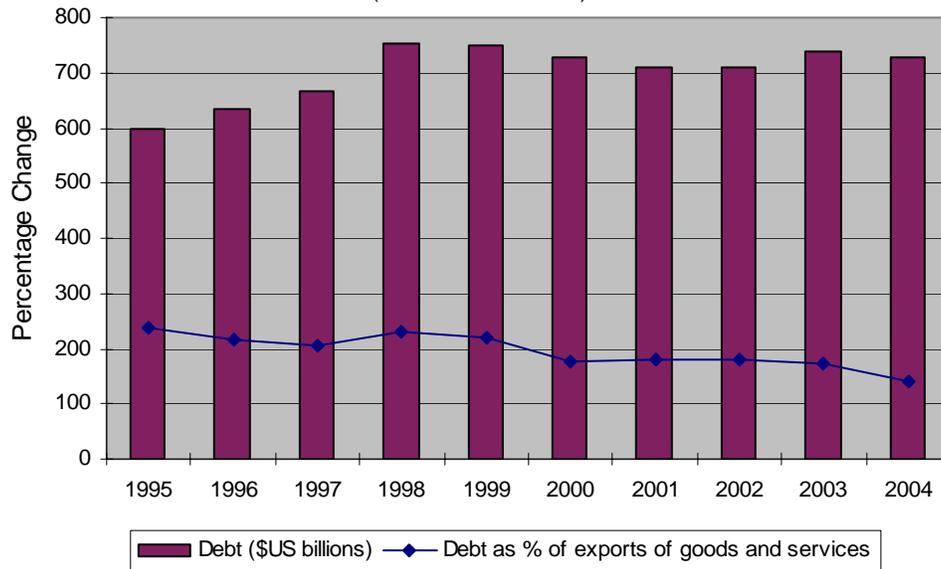


Figure 7
Gross Disbursed External Debt, 1995-2004
 (Source: CEPAL 2005)



Social Environment ↑

The social environment presents a mixed picture. Latin America has begun to reverse some of the short-term erosion of the social environment caused by the economic downturn that ended in mid-2003. Also encouraging is the decline in infant mortality rates, lower incidence of hunger and an increase in school enrollments. However, violent crime afflicts countries throughout the region, and structural poverty and inequality continue to be major problems. A U.N. study estimates that over 220 million Latin America and Caribbean citizens live in poverty. Of this total 96 million are classified as “indigent.” To reduce these numbers, governments must achieve higher rates of economic growth, and adopt policies that directly address the problems.

- ***Unemployment and short-term poverty falling***
- ***Kidnapping serious threat to the business environment***
 Latin America, which has an estimated 7,500 kidnappings a year, accounts for approximately 75% of the world’s abductions, according to insurance industry estimates.

Politics ↓

All Latin American political systems are nominally democratic but the commitment to and practice of democracy is deeper in some than others. The four war-torn republics of Central America have made encouraging progress in distancing themselves from their authoritarian pasts. Especially problematic, however, are the “incomplete, interrupted democracies,” which regularly hold elections but then just a regularly experience “popular coups” that force the winners to leave office before serving out their constitutional terms. This cycle has become institutionalized in Ecuador and Bolivia. In these two countries weak political parties have been unable to effectively integrate the increasingly mobilized indigenous peoples into the political process and dysfunctional governments cannot meet the needs of their poorest citizens. Corruption is both a cause and effect of unconsolidated democracy.

- ***Unscheduled changes in government weaken democracy***
Public protests forced the presidents of Ecuador and Bolivia from office in 2005.
- ***Corruption undiminished***
This year’s bribery scandals in Brazil, Costa Rica and Nicaragua reaffirm that corruption continues to reach the highest levels of government. Chile and Uruguay – countries with strong democratic traditions and institutions – stand apart as being relatively free of corruption. Costa Rica was once in this category, but the current scandal raises doubts about its business environment.

Policy/Regulatory Environment=

Latin America has a history of major policy shifts. In the late 1980s, governments in the region began to abandon inward-looking development models in favor of open, market-friendly development. During the 1990s, following the prescriptions of the New Economic Model, referred to as the Washington Consensus, economies were stabilized and opened to foreign trade and investment. State-owned enterprises were privatized and

business practices were deregulated. With the economic downturn that began in 1997, the electoral shift to the left in recent years and popular protests against “neo-liberalism,” conditions might be conducive to another policy shift.

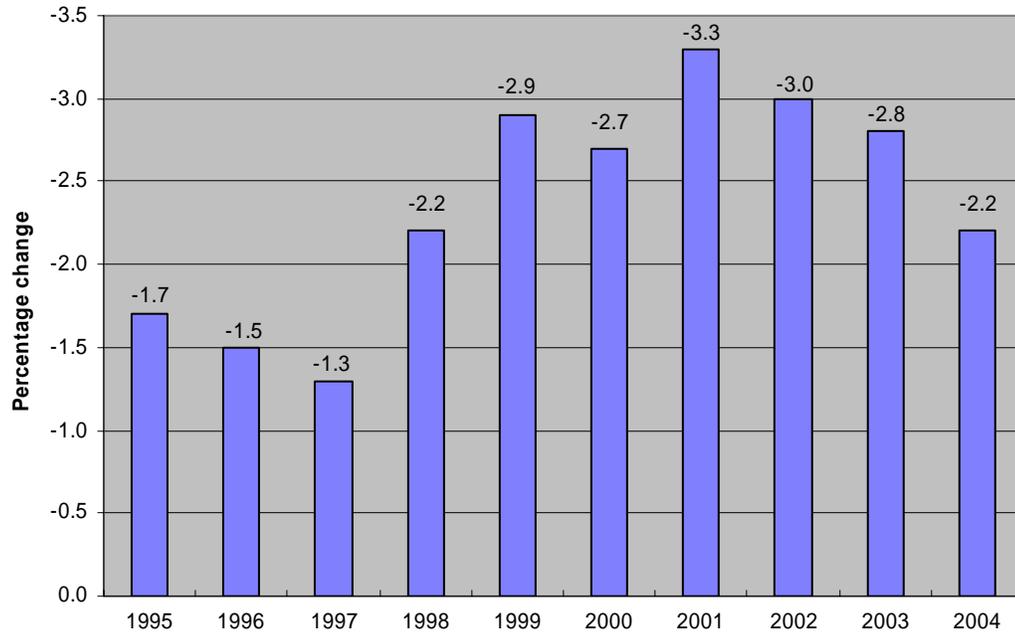
- ***Continued adherence to orthodox macroeconomic policies***

The current recovery has reinforced the hemispheric commitment to orthodox macroeconomic management using inflation targeting (Figure 5), strong fiscal anchors (Figure 8) and floating exchange rates (Table 9). The new president of Uruguay was quick to assure the international financial community that his government would adhere to the pragmatic path chosen by the left-leaning presidents of Brazil and Chile. In Peru, President Toledo picked his finance minister to be prime minister in order to guarantee continuity in economic policy until the new government takes over.

- ***Structural reform less certain***

While Brazil, Chile and Mexico make some headway, reform has lost momentum and is under forceful attack elsewhere in the region. Uruguay’s new president is not likely to promote privatization or other reforms that face strong opposition.

Figure 8
Fiscal Deficit/Surplus, 1995-2004 (% of GDP)
 (Source: CEPAL, December 2004)



II. COUNTRY PROFILES

NAFTA REGION

At the mid-March North American Summit in Texas, the three leaders proclaimed the “Partnership for Security and Prosperity of North America.” The agreement is a trilateral program to deepen regional integration by transforming NAFTA into a full North American Community by 2010, and taking action on important regional issues. In practice, immigration and border security dominate U.S.-Mexican relations. It appears unlikely that President Bush will be able to push a guest worker program through Congress, which has a strong anti-immigration faction, while Mexico’s inability to effectively police its side of the border fuels security concerns in the U.S.

The fact that Mexicans living abroad (the overwhelming majority in the U.S.) remitted a record \$16 billion in 2004 to their relatives in Mexico demonstrates that the migrant stream north continues unabated. Forecasts anticipate \$18 billion in remittances this year. Employment and output in the *maquiladoras* industry both recovered in 2004, but still remain short of peak levels in 2000. Most of the gains came in service *maquiladoras* as Mexico faces increasing competition in light assembly jobs from Asia. The loss of sales and market share predicted for the Big 3 U.S. auto companies will have negative implications for Mexico.

Mexico⁼²: Stable economic performance as U.S NAFTA partner gears up for elections

- **Moderate growth**

Rising exports, investment and domestic consumption spurred by increased consumer credit have contributed to growth, while the manufacturing sector has not recovered to previous levels. Most observers attribute Mexico’s disappointing performance to long term structural weaknesses, close ties to U.S. manufacturing

² The symbols for each country indicate the following trends: ↑ business environment improved, ↓ business environment deteriorated, = no significant change since 2004 report.

and rising Chinese competition for manufactured export goods. The central bank implemented a new instrument for adjusting interest rates to combat inflation, which has been running slightly over the targeted rate but is not a problem. The stock market has reached record high levels as local pension funds begin to invest in equity-linked notes.

- ***Solid external financial position***
FDI is rising, the peso is up against the dollar and exports are up, thanks largely to high oil prices. Most impressive has been the government's management of the external debt to extend maturities and lower interest payments. This has reduced both total debt and the debt/export ratio. Rating agencies responded by upgrading Mexico.
- ***Increase in high profile violent crimes***
According to estimates Mexico now has more kidnappings than any country in the world. Drug and gang-related criminal activities grew even more violent on the border with the U.S. over the past year.
- ***2006 presidential election dominates politics***
The country dodged a major crisis in April when popular Mexico City mayor and candidate of the left-leaning PRD, Andrés Manuel López Obrador, was allowed to run for president after questionable corruption charges against him were dropped. His nomination assured, he will face the nominees of the ruling PAN and PRI to be selected in primaries.
- ***Sound macroeconomic program but structural obstacles remain***
Two of the most pressing and thorny issues the new government will have to deal with is the need to reform the tax code to boost revenue and the need to open the energy sector to private investment.

CENTRAL AMERICA

The most significant development affecting the business environment in Central America was U.S. Congressional approval of the free trade agreement with five Central American countries (Panama and the U.S are currently negotiating a separate bilateral FTA) and the Dominican Republic. Ratification of CAFTA-DR was in doubt until the July 2005 vote in the House of Representative passed the agreement by just two votes. The legislatures of Costa Rica and Nicaragua must still ratify the agreement with only Costa Rican approval in doubt.

CAFTA-DR assures preferential access to the U.S. after the temporary one-way free trade arrangements adopted during the civil wars of the 1980s expire. However, CAFTA-DR concedes only limited gains to Central American sugar and textile exporters. Central America is a relatively small market composed of 45 million mostly low income consumers. Liberalized access to Central American markets is important for U.S. farm products and selected manufactured goods. The agreement immediately grants duty-free status to 80% of U.S., with the remaining tariffs to be phased out over 10 years. CAFTA-DR further commits all member governments to adopt common standards regarding intellectual property rights, dispute resolution and treatment of foreign investment.

CAFTA-DR comes at a time when Central America is in a cycle of moderate expansion. In contrast to the rest of Latin America, Central America's terms of trade are stagnant. This is a function of the region's commodity mix of traditional exports, such as coffee (that saw price gains only slightly above historical lows) and non-traditional exports like textiles (that faced increased competition from China following the end of the Multi-Fiber Agreement) combined with a heavy dependence of oil imports. Exports are up, but all countries are running current account deficits. Growth rates are satisfactory, and inflation is holding steady. With the exception of Costa Rica and Panama, gang-related (*las maras*) violence continues to undermine the social environment. For a region with a recent history of political unrest and violence, the political environment is stable. All six countries have elected constitutional governments. The environment in Nicaragua has seriously deteriorated over the past year, and the scene is changing in Costa Rica.

While it is unlikely that CAFTA-DR will produce dramatic changes in Central America, it will affect trade and investment as it comes on line and more closely integrates the region into the expanding North American-NAFTA economy. The region's outlook is certainly more favorable than it would have been had the U.S. Congress not ratified the agreement.

Costa Rica ↓: Corruption and policy inaction weaken attractive environment

- ***Soft economic performance***
Growth for 2005 is down from last year, and is 1.3% lower than the annual average for 1995-2004. Inflation will exceed 10% for the second year in a row. Exports are up less than 5.0%.
- ***International standing remains favorable***
FDI increased in 2004. Its debt/export ratio is the best of the countries covered in this report (Table 8). The colon lost the most of any Latin American currency, except the Venezuelan bolivar, against the dollar.
- ***Unsettled political environment***
Major corruption scandal and pre-election maneuvering unsettled the political environment, but institutions remain fundamentally sound. Three past presidents are charged with accepting bribes, forcing one to step down as Secretary General of the OAS – a post he held for just three weeks. A second resigned from a top position with the World Economic Forum.
- ***Fiscal reform and CAFTA-DR stalled***
President Pacheco has refused to submit the trade pact to the National Assembly for ratification until the legislative body approves his fiscal reform bill and his appointed “Council of Notables” advises him on CAFTA-DR. The risk now is that there will be no action on either of these important measures until after the February elections.

El Salvador =: Awaits payoff from dollarization and liberalization

- ***Economy disappoints expectations***
Although up in 2004 and 2005, inflation is under control, but growth is sluggish and per capita income stagnant.

- ***Mixed external position***
On the plus side is the investment grade credit rating. However, export growth is weak, in part because of low coffee prices (still a major export), but also because dollarization (now in its fourth year) has raised relative prices of El Salvador's manufactured goods, especially textiles. It remains to be seen whether CAFTA-DR will help offset the downside of a dollarized economy by guaranteeing preferential access to U.S. markets. Overseas remittances (around \$2 billion annually) are crucial to the economy (equivalent to 15% of GDP).
- ***Gang-related violence***
In spite of various measures to reduce the rate of violent crime, homicides increased by 25% (from 1,500 to 2,000) in the first half of 2005 compared to same period in 2004, according to the National Civil Police.
- ***Stable political environment***

Guatemala ↑: Small but significant steps strengthen weak environment

- ***Flat economic performance***
GDP growth is up since 2003, but GDP per capita stagnant. Inflation has also increased. Exports are up, but country has large trade and current account deficits.
- ***Improved international standing***
In recognition of the government's efforts to combat organized crime, drug trafficking and corruption, the U.S. restored military aid, and the Organization for Economic Cooperation and Development removed Guatemala from its blacklist of countries that did not cooperate in efforts to control money laundering and terrorism. Its external debt and debt/export ratio both decreased, and the government successfully issued 30-year bond in September 2004.
- ***Problematic social environment***
Poverty, social exclusion and criminal violence undermine the business environment and efforts to consolidate democracy. Although the new president has undertaken measures to address these problems, the indigenous population (estimated at 5 million) remains on the margins, and criminal violence is pervasive.
- ***More settled political environment***
Working with a multi-party congressional coalition and cabinet, President Oscar Berger has reduced the size of the army and ended military practices associated with human rights violations.

- **Significant policy advances.**
Congress ratified CAFTA-DR in the face of public demonstrations that turned violent. It also approved a measure allowing tax revenues to rise from 8% to 11% of GDP in order generate greater infrastructure investment and social spending.

Honduras ↑: Growth encouraging but gang violence persists

- **Three years of strong growth**
Inflation has increased over the past two years.
- **Mixed external profile**
Healthy terms of trade (compared to the rest of Central America, except Panama) sustain modest export growth, but FDI is flat and the debt-servicing burden high.
- **Crime and violence serious**
In December 2004, a gang assault on a bus killed 28.
- **National elections in November**
For the first time the two major parties used primary elections to select their presidential nominees. Security and organized crime are major issues in the campaign. Neither candidate has established a convincing lead in the polls.
- **Important business policy decisions**
The Maduro administration had deregulated the telecommunications industry, pushed through a property-titling reform and secured ratification of CAFTA-DR.

Nicaragua ↓: Escalating constitutional crisis threatens to erase recent gains

- **Economic performance on balance positive.**
Although inflation is up, growth is running 4.0%, which translates into higher per capita income for one of region's poorest countries.
- **International standing weaker**
The U.S. suspended military aid when the Nicaraguan Congress prevented President Bolaños from carrying out his commitment to destroy shoulder-fired missiles acquired under the Sandinista government. As a poor country with a high debt burden, Nicaragua needs private investment (up in 2004) and public assistance. Its current IMF loan runs out at the end of 2005. It has the least favorable terms of trade of the 20 countries.
- **Highly polarized political environment**
Former presidents Alemán and Ortega have rallied their forces in Congress to strip President Bolaños of key powers. Their goals are to get Alemán released from house arrest on a bribery conviction in order to pave the way for Ortega (who has seized control of the Sandinista party) to run for president again. Not

even popular protests, U.S. pressure or OAS intervention have headed off the crisis.

- ***High fiscal deficit***
Upcoming elections and confrontation between the executive and legislative branches makes it difficult to narrow the deficit. Congress has not yet ratified CAFTA-DR.

Panama ↑: Environment improves under new administration

- ***Three consecutive years of rapid growth.***
Inflation is not a problem in the dollarized economy.
- ***External position positive***
FDI dropped in 2004, but was still highest in Central America on a per capita basis. Exports increased and the current account deficit declined. Negotiations for a U.S.-Panama FTA are in final stages.
- ***More settled political environment***
- ***Unpopular fiscal and pension reforms passed.***
The Torrijos government's next challenge is to win approval for a plan to widen the Panama Canal, a project that must be submitted to popular referendum.

CARIBBEAN

Strong commodity prices, record-level overseas remittances and recovery of tourism combined to produce an upturn in the Caribbean in 2004, which has carried over into 2005. The quick turnaround of the Dominican Republic, which has the largest market economy in the region, is positive for the region. However, with the exception of Trinidad & Tobago, countries in the region carry heavy debt burdens and depend heavily on tourism. Furthermore, recent WTO decisions endanger the Caribbean's preferential access to E.U. commodity markets. The Venezuelan government has entered into agreements with Caribbean governments to supply them oil on concessionary terms.

On the institutional level, CARICOM leaders revived plans to create the Caribbean Single Market Economy (CSME), an idea that has been around for 30 years. In April

2005, CARICOM established the Caribbean Court of Justice. The Court replaces the Privy Council as the final court of appeal for cases in member states and as the body responsible for interpreting and applying the CSME treaty. They also proposed a free trade agreement with the U.S., modeled after CAFTA-DR. These initiatives come in the context of two developments: the erosion of preferential access to E.U. and U.S. markets and sub-regional trade negotiations that displaced the stalled FTAA process.

Dominican Republic ↑: Economic recovery under new administration lifts environment out of problematic category

- ***Strong turnaround in economic performance***
Following the 2003 collapse, growth slowly resumed last year. Forecasts called for expansion of 3.5% this year, but the economy grew 5.8% in the first half of 2005. Equally encouraging is the rapid decline in inflation and falling interest rates.
- ***New IMF standby loan anchors improved external position***
To qualify for the loan, the government had to commit to implementing fiscal austerity, restructuring its public debt and reforming the banking and energy sectors. Both FDI and exports are up, and the country has a current account surplus. Moody's upgraded its outlook for the DR in May. Since the end of 2003, the peso has strengthened against the dollar by 50%. Some observers worry that it is now over-valued and hindering export growth.
- ***High unemployment, frequent blackouts and rising crime***
- ***Parties gearing up for 2006 legislative elections***
The election will decide control of Congress, currently in the hands of the opposition PRD, during the last two years of President Fernández's term. The PRD has been hurt by defections and splits.
- ***Important items on policy agenda***
Congress must approve tax reform and reform of the power sector. The government needs to increase tax revenues in order to reduce the fiscal deficit. Chronic power blackouts generate social tension and added uncertainty for business. Both houses voted overwhelming approval of CAFTA-DR in September.

Jamaica ↑: Weak recovery continues

- ***Positive economic performance***
Rising bauxite exports and record tourist revenues have delivered three years of economic growth. Inflation is falling into the high single digit range, permitting the central bank to lower interest rates. The 2004 hurricanes did not inflict major damage on the economy.
- ***Improved external position***
High bauxite prices, fueled by growing Chinese imports, help offset rising cost of oil imports. In early 2005 Standard and Poor's upgraded the country's sovereign credit rating because of the country's improved external and fiscal situations.
- ***Chronic gang-related violence***
In the first seven months of 2005 homicides reached 1,000, surpassing the number for the same period in 2004 by 210 murders.
- ***Two major parties to select new leaders for next election***
P. J. Patterson announced that he would step down in April 2006 after 13 years in office and turn power over to a new prime minister before the 2007 election.

Trinidad & Tobago ↑: High energy prices and political stability make environment more attractive

- ***Economic growth to reach 6.0% for second year in row***
- ***Strong external position***
Soaring demand for liquefied natural gas has boosted export earnings and attracted FDI. In recognition of T & T's strong external and fiscal accounts, rating agencies upgraded its credit rating.
- ***Kidnappings increasing***
- ***Ruling PNM party strengthened in by-elections***
- ***Priority to long-term policy initiatives***
The government is giving priority to increasing gas exploration, diversifying the economy and building up the stabilization fund, all of which would strengthen the country's long-term outlook.

ANDEAN SOUTH AMERICA

Andean South America continues to be the most problematic region in Latin America, but there have been positive developments. On the negative side, two of the

five countries – Bolivia and Ecuador – had unscheduled presidential changes. On the positive side, the Andean countries benefited from favorable terms of trade (all five are energy exporters). The economies performed well for the second year in a row, with healthy growth rates, low inflation (except Venezuela), increased exports, and favorable current account profiles.

Although negotiations for the Andean FTA between the U.S. and Colombia, Peru and Bolivia have fallen behind schedule (missing the December 2004 deadline to finish the negotiations), it still appears that the four countries will eventually produce and sign an agreement. The issue then becomes whether the U.S. Congress will ratify it.

Bolivia ⚡: Protests force president from office and weaken problematic environment

- ***Economic growth***
Under trying domestic circumstances, but aided by rising natural gas export earnings, the economy is growing, at 3.5% annually over the last 24 months. Although low by historical standards, inflation has increased during this period.
- ***Weakened external position***
Despite highly favorable terms of trade, escalating political instability and uncertain policies make Bolivia less attractive. Of particular concern is uncertainty over foreign participation in the energy sector. FDI, which fell sharply in 2003, dropped again in 2004. The debt burden is heavy, although the Group of 8 agreed to consider forgiving Bolivia 40% of its foreign debt.
- ***Widespread poverty and social fragmentation dominate social environment***
- ***Prolonged political crisis***
In June, Carlos Mesa stepped down as interim president in favor of Eduardo Rodriguez, Bolivia's third chief executive in three years. Congress voted to cut short the current executive and legislative terms by 18 months and hold a constitutional convention and referendum. The demise of the traditional parties, confirmed in the December 2004 municipal elections, and rise of radical indigenous movements weakens the state and complicates governability.
- ***Unsettled policy environment***
Both macroeconomic stability policies and structural reform measures, in which Bolivia was a pioneer, are at stake. There is a large fiscal deficit. In an unsuccessful effort to end the street protests that shortly forced him from office,

Carlos Mesa allowed passage of a bill that sharply raised taxes on foreign energy companies amid calls to nationalize all natural resources.

Colombia ↑: Commodity prices and stable politics sustain economic recovery

- ***Encouraging economic performance***
The economy is now in fourth year of growth, and inflation is falling, in spite of large fiscal deficit.
- ***Favorable external position***
The terms of trade are strong, and FDI is rising. Surging exports and a falling dollar forced the government to control short-term capital flows to curb appreciation of the peso. Colombia's close relationship with Washington cultivated by Presidents Uribe and Bush will likely lead to renewed U.S. funding for Plan Colombia.
- ***Improved security***
Although still a dangerous social environment, Colombia has become safer with fewer homicides and kidnappings. The trend is less clear with respect to drug-trafficking.
- ***Popularity high for President Uribe***
Despite resurgence of FARC guerrilla attacks and questions about the president's amnesty proposal for the paramilitary forces, popular approval of Uribe is at 70% in polls as he moves toward re-election bid.
- ***Controlling fiscal deficit biggest policy challenge***
Colombia is committed to bring the fiscal deficit down under terms of the current IMF agreement. The Senate failed to approve reform of the pension system that would have reduced the drain on federal treasury. The government earlier had to withdraw a tax reform bill because of lack of support in Congress.

Ecuador ↓: Weak institutions and chronic instability offset high oil prices

- ***Economy slowing down***
Growth in 2005 projected to be half the 6.3% achieved in 2004. Most of the growth was in the oil sector, although retail sector increased 4.1%. Dollarization kept inflation under control.
- ***Shaky external position***
Standard & Poor's lowered Ecuador's credit rating in June citing concerns about the new government's ability to cover a growing financing gap. Fitch changed its outlook to negative in late August following protests that disrupted oil production. Multilateral lending agencies have held up loan disbursements.

- ***Precarious political environment***
In April popular demonstrations over an attempt to pack the Supreme Court forced President Lucio Gutiérrez from office. Congress named Vice President Alfredo Palacios as Ecuador's seventh president in eight years. The interim president – who belongs to no party – is struggling to cobble together a constitutional referendum and make it through until a new chief executive is chosen in November 2006.
- ***Policy in flux***
On assuming power, Palacios promised to increase social spending, even if it violated the fiscal responsibility law and diverted funds from oil reserve set aside for debt servicing. His first finance minister, an opponent of dollarization who pushed for looser fiscal policy, was forced to resign after striking a deal to sell \$300 million in bonds to Venezuela, allegedly without informing Palacios.

Peru ↑: Economic and financial environment effectively insulated from politics

- ***Economic performance continues strong***
The economy is in an unprecedented four-year growth spurt. Inflation is low and declining.
- ***Favorable external position***
Exports jumped in 2004 in response to improving terms of trade while FDI is steady. External debt is down slightly. Currency appreciation and low inflation has allowed the government to adopt a series of measures to move away from use of the dollar in the local economy. Peru suggested that it would seek to conclude a separate bilateral FTA with the U.S. if the three-country Andean negotiations break down. Although the coveted investment grade rating continues to elude Peru, Standard & Poor's upgraded its outlook in July.
- ***Democratic and policy advances under weak administration***
In spite of low approval ratings and political turmoil swirling around his administration (his cabinet resigned in August), President Toledo will serve out his constitutional term and leave his successor a strong economy anchored in solid macroeconomic policy-making.

Venezuela ↑: Political consolidation and economy growth but policy uncertainty define problematic environment

- ***Good prospects for continued economic growth***
Inflation remains high as does the fiscal deficit. Benefiting from highly favorable terms of trade, exports have soared. Rising public revenues allowed the government to reduce the value-added tax.

- ***Record oil prices and escalating tension with U.S.***
Oil revenues have generated a large current account surplus, strong hard currency reserves, lower external debt and upgraded credit ratings. They have also allowed the Chávez government to embark on a diplomatic offensive that includes building closer relations with Cuba and courting allies in the Americas for his “Bolivarian” project. The deterioration in U.S.-Venezuela relations – as well as policy uncertainty regarding the role of the private sector – keeps foreign investors wary of oil-rich Venezuela. The government devalued the Bolivar by 33%.
- ***Poverty and unemployment persist***
Heavy government social spending has alleviated short-term unemployment and raised family incomes among the poor. Social spending does not constitute a long-term solution to poverty.
- ***Increased Presidential power***
Following his victory in the August 2004 referendum, Chavez increased the power of the presidency at the expense of the other branches of government. He also took steps that politicized the armed forces and civil society. The opposition is disorganized and leaderless. The ruling MQR won more than 80% of the seats in the August 2005 municipal elections.
- ***Contradictory policy agenda of Bolivarian revolution***
Chavez rejects Western-style capitalism in favor of yet-to-be-defined “21st century socialism.” The government is promoting land reform and a co-management scheme (*co-gestión*), which turns bankrupt enterprises over to management councils with worker participation. At the same time, it has not threatened to eliminate the private sector and continues to solicit foreign investment.

BRAZIL AND THE SOUTHERN CONE

Buoyed by global commodity prices and stable political systems, the business environment in Brazil and the Southern Cone region of South America continues to be positive. Chile is especially attractive, looking much like it did in the 1990s. Argentina, which continues to recover from the painful 2002 collapse, took an important step in reaching agreement with most of its private bondholders. The Argentine recovery has spilled over into Uruguay. Of the five countries, only Paraguay has failed to break out of its stagnation.

There were no major developments that affected MERCOSUR, either in terms of expanding membership to other countries or deepening integration toward a full customs union. Argentina expressed reservations that Brazil's ambitious foreign policy, which includes a campaign for a permanent seat of the UN Security Council and leading role in global trade talks, is threatening to detract from MERCOSUR. The political turmoil in Bolivia and its potential to cripple energy supplies in the Southern Cone led to a proposal, underwritten by Venezuela, to create a South American energy consortium to assure the MERCOSUR members and Chile reliable energy flows.

Brazil ↓: Corruption scandal yet to reverse economic recovery

- ***Encouraging economic performance***
The 2004 growth rate was the best since 1994, thanks to dramatic increase in exports and strong consumer spending. It will be lower in 2005 but so will inflation (falling within targeted range). The stock market, matching the economic performance, was up over 18% in dollar terms for the year in August.
- ***External confidence persists***
FDI fell in 2004 but was up 88% in the first seven months of 2005. The real, which has steadily gained value against the dollar under Lula, remains strong, too strong for Brazilian exporters but helpful (combined with current account surplus) for reducing dollar denominated debt. Brazil's strong external position allowed it to forego renewing stand-by loan from the IMF.
- ***Violent crime remains serious but unemployment falling***
- ***Political environment has deteriorated***
So far the President has not been directly implicated in the scandal that erupted in May, but his closest advisor and top PT officials were forced to resign. Lula's standing in the polls began to weaken in late August. The President's troubles started in February when his candidate for president of the Chamber of Deputies lost to a veteran politician from minor party. This required a reorganization of the cabinet to reconstitute congressional support for the administration.
- ***Macroeconomic policies secure but structural reform more problematic***
Although the bankruptcy reform passed and some progress was made on tax reform, in late August Congress overrode – for the first time in his presidency – the President's veto of wage increase for legislative employees. The Central Bank pushed the benchmark Selic interest rate back up during the year (19.75% in

August), but now appears prepared to begin bringing it down as the threat of inflation recedes.

Argentina ↑: Debt settlement and continued growth improve weak environment.

- **Mixed economic performance**
High commodity prices and recovering domestic consumption have given Argentina three years of growth above 7.0%, but inflation is on the rise.
- **Strengthened external position**
The government won acceptance of a deeply discounted (70%) restructuring package on its \$103 billion debt from domestic and most foreign bond holders. Argentine companies reached less discounted settlements with their creditors on the estimated \$30 billion private sector debt. The other positive developments include: Rating agencies upgrade; FDI starting to return; a current account surplus, issuing first dollar denominated bond issue since 2002 default and a stable peso. In June the government imposed controls on short-term capital flows. The foreign debt burden is still quite high, and the government has yet to put together a new agreement with the IMF.
- **Decline in unemployment and poverty**
Both have fallen from the levels reached in 2002 economic crisis. The daily public protests (*piqueteros*) that started during the crisis continue to disrupt the social environment.
- **Mid-term elections next test for president**
President Kirchner, who was elected with only 22% of the popular vote in 2003, is asking the voters to give him a mandate in the mid-term elections in October. His competition comes from a dissident wing of the Peronist party led by his predecessor, Eduardo Duhalde.
- **Important policy challenges**
While maintaining fiscal discipline during current election campaign is a challenge, the larger policy challenges include rebuilding the banking system and coming to agreement with the utility companies on rate hikes.

Chile ↑: Strong economic performance and stable politics strengthen attractive environment as country prepares for national elections

- **Sustained high growth**
Soaring copper export revenues, low interest rates, increased investment and growing consumer spending are generating higher GDP growth in 2005 than 2004. But inflation, although moderate by historic standards, is up, forcing the Central Bank to increase the benchmark lending rate.

- ***Strong external position***
FDI and exports increased substantially in 2004, and Chile has a healthy current account surplus. With the FTA with the U.S. going into effect in January 2004, trade between Chile and the U.S. is up. Chile continues to have the least corrupt, most competitive business environment in Latin America.
- ***Lagos administration ending on a high note***
Congress has approved constitutional reforms that consolidate full democracy in Chile's democracy by removing special military prerogatives and eliminating appointed senators.

Paraguay ↑: Modest improvements in problematic environment

- ***Slow growth and low inflation***
- ***Favorable IMF review***
The IMF blessing and *extension of stand-by loan* signal growing external confidence in environment, but exports and FDI are stagnant.
- ***Kidnapping and growing crime***
Government is forced to take steps – including using armed forces for public security tasks and recruiting 4,000 additional police officers – to strengthen public security.
- ***Peasant protests***
Demands for land reform constitute political challenge for President Durarte.
- ***Mixed policy performance***
Although macroeconomic policy has improved, the opposition-dominated congress and public protests makes it difficult to secure passage of reform measures. Government again retreated on privatization, which is condition of IMF agreement.

Uruguay ↑: New administration balances economic orthodoxy with social intervention

- ***Economic recovery continues***
Growth is strong for second consecutive row, and inflation is declining. Exports jumped in 2004 and helped generate a current account surplus.
- ***New IMF agreement***
Agreement gives the new administration international legitimacy and credit based on its commitment to maintain fiscal discipline and service the large foreign debt. The peso reached a 30-month high early in 2005.

- ***Social environment improving***
On taking office, the new administration launched a major antipoverty program (*Panes*) to lift the standard of living of the poorest of the poor, and recovery is bringing unemployment down.
- ***Political realignment***
The October 2004 elections voted the traditional Blanco and Colorado parties out of power. Tabaré Vázquez, a Socialist, won a first-round victory in the presidential contest, and his leftist EP-FA coalition won majorities in both houses of congress.
- ***Pragmatic policy agenda***
President Vázquez adopted the model of neighboring Socialist chief executives by pursuing orthodox macroeconomic policies. Given Uruguay's strong statist tradition, and in light of the preferences of his congressional allies, he must be cautious when promoting structural reforms. Recent referendums constrain him from privatizing public enterprises.

III. OUTLOOK

REGIONAL OUTLOOK

The outlook for the Latin American business environment is favorable through 2006. Prospects are good for the recovery that began in mid-2003 to continue, making it the longest period of growth since the early 1990s. However, the rapid jump in global energy prices in recent months and the large number of elections scheduled in the region over the next 15 months add more uncertainty to the outlook than was the case a year earlier.

External Environment

- ***Global =***
The global outlook is, on balance, positive for Latin America, although oil prices are a growing concern. With oil prices now over \$65 a barrel, both the importing and exporting economies face fiscal, monetary and external imbalances. Rising energy prices are generating social unrest and political pressure on governments to protect their citizens from the increases. Soy bean and coffee prices showed signs of softening, prior to the Hurricane Katrina disaster.
Keys: Commodity prices, especially oil, and resumption of WTO negotiations
- ***Regional?***
A dramatic improvement in U.S.-Latin American relations is unlikely, but it is important for Washington to stay engaged with the region, especially with the next presidential Summit of the Americas scheduled for Argentina in November. U.S. concessions to jump-start the stalled FTAA negotiations would be a significant gesture. How the challenge from the Chávez government in Venezuela – in an escalating tit-for-tat confrontation with the Bush administration while using oil diplomacy to cultivate friends in Latin America – plays out will affect Inter-American relations. As the Lula government has been touted as the responsible model, what happens in Brazil has implications for the region.
Keys: U.S.-Venezuela relations, developments in Brazil and regional trade negotiations

Domestic Environment

- ***Economic and Financial Performance =***
The 2006 economic performance should duplicate that of 2005 with regional growth around 4.0% and mild inflationary pressures. The continued economic

recovery and local currency appreciation may increase imports and produce or deepen current account deficits. FDI should continue increasing.

Keys: Global growth and commodity prices

- **Social Environment** ↑

Four years of growth will lower unemployment, increase per capita income and improve the standards of living of families in lower income brackets.

Keys: Continued growth and anti-crime measures

- **Politics** ↓↑

Given the elections scheduled over the next 15 months, the region's political environment promises to be unsettled. Victories by leftist-populist candidates, (a plausible outcome in at least five countries – Nicaragua, Bolivia, Ecuador, Peru and Mexico – and guaranteed in Venezuela), would lay the foundation for a significant shift in the business environment. In the meantime, the campaigns themselves will generate greater uncertainty.

Keys: Eleven presidential elections by end of 2006

- **Policy/Regulatory Environment** =

If Latin America shifts further to the left, and the new administrations pursue a more populist line, pressure would increase in these countries to abandon New Economic Model (NEM) in favor of a return to the more protected, inward-looking, statist development model championed by President Chavez. While such an outcome might signal an end to the Washington Consensus as a consensus, it would not trigger a region-wide paradigm shift. Chile, Brazil and Colombia are firmly in the NEM camp, while Costa Rica, Honduras, Peru, and, most importantly, Mexico are likely to stay the course, regardless of who wins their elections.

Keys: Election outcomes and make-up of new governments

COUNTRY OUTLOOKS

To further assess the outlook for the next 15 months, we divide the 20 countries into three categories – attractive, problematic and mixed. The categories correspond to the current overall character of their business environments but recognize that significant internal or external developments can affect the classification. This year, three of the 20 countries are in different categories than in the 2004 *LABER*: Argentina and the Dominican Republic were upgraded from problematic to mixed, while Ecuador was downgraded from mixed to problematic. Within each of the three categories, we indicate

the likelihood that the national business environments will get better (↑), get worse (↓) or stay the same (=) through 2006 and suggest key events to monitor in each environment. This year, six of the 20 environments are expected to improve compared to 12 in 2004.

Attractive Environments

Although not without weaknesses, four business environments (Mexico, Costa Rica, Trinidad and Tobago, Chile) are fundamentally sounder and offer an attractive risk-reward balance. The combination of factors that make the environment attractive differs somewhat from country to country, as does the outlook for each. Mexico's strength comes from its close integration with U.S. through NAFTA, its systematic implementation of the NEM and its strong institutions. Election-year politics cloud the short run outlook as is the case with Costa Rica, which derives its strength from the relatively high level of its social development and stable democratic politics. Trinidad & Tobago has a rich resource endowment and a history of parliamentary democracy. Measured on all dimensions, Chile has the most attractive business environment in Latin America.

- ***Mexico*** ↓↑
Presidential elections have a history of unsettling the business environment in Mexico. Even though the government has taken steps to maintain investor confidence by building up a foreign currency reserve fund to meet all foreign debt obligations through 2007, should López Obrador maintain his lead in the polls and sweep to victory, we can expect the markets to soften on Mexico (much as happened in Brazil in 2002) until the new administration defines itself. The new president – who ever he turns out to be – is unlikely to have a majority in Congress.
Keys: July 2006 presidential election
- ***Costa Rica*** ↓↑
The two-party arrangement that gave Costa Rican democratic stability and predictability is unraveling, making the outcome of the upcoming election and

nature of the next administration less certain. Former President Oscar Arias, a proponent of CAFTA-DR, has a lead in the early polls, but the heavy-handed way he secured the nomination (and the judicial decision reversing the ban on re-election) further weakened the PLN. Ottón Solís, second in the polls as the nominee of one of the new parties, opposes CAFTA-DR.

Keys: CAFTA vote and February 2006 elections

- **Trinidad & Tobago** ↑

Over the next 12-18 months, there are no serious threats to the environment.

Keys: Energy prices

- **Chile** ↑

With the ruling *Concertación* candidate, Michelle Bachelet commanding a healthy lead in the polls, the October election seems likely to produce a smooth transition and policy continuity. Bachelet is a free-market Socialist in the mold of incumbent President Ricardo Lagos.

Keys: November 2005 presidential election

Problematic Environments

Political instability, weak institutions and unresolved policy issues make the business environments of the four countries in the problematic category fundamentally unattractive. Bolivia and Ecuador – downgraded to problematic this year – are deeply divided nations with mobilized populations, dysfunctional political parties and weak governments. Uncertainty in Venezuela surrounds both how the president and opposition will address their deep differences and which policy agenda the government will pursue. The administration in Paraguay is not strong enough to make significant progress in reducing corruption or pushing stalled reforms through congress. Three of the four countries will hold national elections over the next 15 months, but the outcome of these contests is unlikely to alter the problematic character of their business environments.

- **Bolivia** ↓

Bolivians will go to the polls in December, ahead of schedule, to select a new president and Congress. The two presidential favorites offer voters a real choice: U.S.-educated Jorge Quiroga calls for staying on the free market course while Evo Morales, leader of the indigenous coca growers and admirer of Hugo Chávez, says that he would nationalize natural resources, including the gas fields. As

things now stand, it seems hard to see how either could effectively govern this nation so deeply divided by ethnicity, class and region.

Keys: December 2005 elections and constitutional reform

- **Ecuador** ↓

Ecuador must not only elect a new president, but also find a way to build a more stable political system. The Palacio administration proposes to popular referendum that would make major changes in the system of government, but it is losing the authority to define the situation. The business environment over the next 18 months promises to be quiet unstable, and dollarization may not survive the turmoil.

Keys: Constitutional referendum and October 2006 elections

- **Venezuela=**

Hugo Chávez seems firmly in control of Venezuela and determined to extend his influence beyond its borders. Less clear is what he intends to do to Venezuela and whether he is on a collision course with Washington.

Keys: Oil prices, relations with Washington and December 2006 election

- **Paraguay=**

The IMF waived non-fulfillment of certain conditions in its last review, but at some point the government must win congressional approval for controversial reforms committed to in the agreement.

Keys: Compliance with IMF agreement

Mixed Environments

The business environments in the remaining 12 countries feature varied combinations of attractive and problematic traits. It is worth noting, however, that the short-term outlook for only two of these countries is negative, while seven will be unchanged and three are forecast to become more attractive. Four of the most important economies in the region – Colombia, Peru, Argentina and Brazil – fall in this category.

Of particular importance is Brazil. A serious downturn in Latin America's largest country would reverberate throughout the region.

- **El Salvador=**

In spite of taking all the prescribed policy moves and achieving investment grade credit rating, the economy is expected to again experience modest growth even with CAFTA-DR coming on line.

Keys: Boost from CAFTA-DR and reduction in criminal violence

- **Guatemala** ↑
Given its fragile political institutions, anything could quickly reverse the limited but important advances of the last two years. At present, President Berger seems capable of maintaining a steady hand on government. Greater investment and growth under CAFTA-DR umbrella would strengthen environment.
Keys: FDI flows and success in dealing with crime
- **Honduras** =
The election is unlikely to produce a significant shift in the environment, given the similarities between the two parties and their near monopoly over electoral politics.
Keys: November 2005 elections and new administration
- **Nicaragua** ↓
The political class seems incapable of coming to an agreement on how to select a successor to President Bolaños who is legitimate in the eyes of the Nicaraguan people and credible to the international community. A victory for Daniel Ortega would seriously unsettle the business environment.
Keys: November 2006 election and transfer of power to new administration
- **Panama** ↑
The Torrijos government had a good first year, but it must now win popular approval for a plan to modernize the canal.
Keys: FTA negotiations with U.S and advancing plan for canal
- **Dominican Republic** ↑
Well on the way to recovery, winning control of Congress would make it easier for the Fernández government to assure compliance with the IMF program and meet expectations of investors and Dominican people.
Keys: Fiscal deficit, debt management and May 2006 legislative election
- **Jamaica** =
The environment has improved, but it is fragile and could lose its momentum.
Keys: Fiscal policy as parliamentary election approach
- **Colombia** =
National elections will dominate the environment until April. Although there are still some constitutional hurdles, it is likely that Uribe will be cleared to run for re-election and win a second term because of popular support for his security program and the improving economy.
Keys: April 2006 elections and FTA negotiations
- **Peru** =
The August 2005 appointment of respected finance minister Pedro-Pablo Kuczynski as prime minister assures continuity in economic policy until the new administration takes office in August 2006. It may also strengthen the practice

that has evolved under the unpopular Toledo of entrusting economic policy-making to the cabinet. There are no clear favorites in the presidential race, although it seems unlikely that either former president Garcia or Fujimori can win.

Keys: Conclusion to FTA negotiations and April 2006 elections

- **Brazil=**

The fact that the ongoing scandal has not derailed the recovery nor undermined confidence in economic policy is testimony to how much Brazil has matured in the 15 years since the Collor impeachment crisis. Nevertheless, the outlook for the next 16 months is uncertain. The forced resignation of Finance Minister Palocci – much less President Lula – would constitute serious setbacks. By the same token, should Lula effectively deal with the crisis while sustaining economic momentum, he would not only likely be re-elected but further strengthen the environment. Otherwise it will be early 2007 when the next government takes power before the business environment settles down.

Keys: Course of corruption scandal and October 2006 elections

- **Argentina=**

President Kirchner is asking for a mandate in the midterm elections, in which his wife is running for a senate seat in Buenos Aires Province (against the wife of former president Duhalde). If the voters do not give him a mandate, the business environment will become more unsettled and a new agreement with the IMF more difficult. Growth is slowing and inflation increasing.

Keys: Outcome of October 2005 legislative elections and negotiations with IMF

- **Uruguay=**

Thus far, President Vázquez has held together the multi-party ruling coalition in support of his middle-of-the-road agenda. Uruguay's strong institutions are a plus for the environment.

Keys: Relations within ruling coalition and compliance with IMF agreement

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Table 1

MAJOR SUBREGIONAL TRADE AGREEMENTS

	NAFTA	CACM	ANDEAN COMMUNITY	MERCOSUR	CARICOM
I. Type of Agreement	Free Trade Area	Customs Union	Customs Union	Customs Union	Customs Union
II. Entry into Force	1994	1961	1969	1995	1973
III. Agreement Objectives	1. Eliminate tariff barriers on most goods 2. Liberalize market access in several sectors 3. Facilitate movement of business and people	1. Create economic union 2. Implement a CET: common external tariff 3. Reduce intraregional tariffs	1. Create customs union 2. Implement a CET: common external tariff 3. Eliminate intraregional trade barriers 4. Become a common market by 2005	1. Liberalize trade 2. Implement a CET: common external tariff 3. Adopt a sectoral approach	1. Stimulate/promote economic integration 2. Implement a CET: common external tariff
IV. Member Countries	United States Mexico Canada	Costa Rica El Salvador Guatemala Honduras Nicaragua	Bolivia Colombia Ecuador Peru Venezuela	Argentina Brazil Paraguay Uruguay (Bolivia)* (Chile)* (Peru)*	Haiti Jamaica Trinidad & Tobago 12 Other Members FTA w/ Dom. Rep.
V. Total Population (2003)	424.7 million	35.3 million	119.2 million	222.4 million	15.0 million
VI. Total GDP (2003)	\$12.4 trillion	\$68.1 billion	\$259.7 billion	\$639.1 billion	\$35.2 billion
VII. Regional Trade (2004)¹					
<i>Exports within own region</i>	\$737.8 billion (55.6%)	\$3.6 billion (22.1%)	\$7.1 billion (9.4%)	\$17.7 billion (13.0%)	NA
<i>Exports to Latin America</i>	\$175.2 billion (13.2%)	\$4.8 billion (29.4%)	\$17.7 billion (23.5%)	\$37.1 billion (27.3%)	NA
<i>Exports to World</i>	\$1.32 trillion (100%)	\$16.3 billion (100%)	\$75.3 billion (100%)	\$135.8 billion (100%)	NA
VIII. 2003 Subregional Trade Leading Exporters²	United States (40.1%) Canada (36.1%)	Guatemala (35.4%) El Salvador (24.3%)	Colombia (38.3%) Ecuador (21.2%)	Brazil (45.0%) Argentina (43.9%)	N/A N/A

*:associate member

Source: World Bank, *World Development Indicators 2005*.(1) IADB. *Integration and Trade in the Americas: A Preliminary Estimate of 2004 Trade*.(2) World Trade Organization. *International Trade Statistics 2004* (www.wto.org).* Data for Guatemala and El Salvador are 2003 estimates from SIECA (Secretaria de Integración Económica Centroamericana <www.sieca.org.gt>).

Table 2
TERMS OF TRADE, 1995-2004

(1995=100, except where indicated)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NAFTA REGION										
Mexico	100.0	102.8	104.0	100.4	102.3	107.4	104.6	105.1	106.1	109.2
CENTRAL AMERICA										
Costa Rica	100.0	94.9	100.6	103.9	102.8	95.8	94.2	92.8	91.4	87.1
El Salvador	100.0	93.6	94.1	91.8	86.9	82.7	84.8	84.1	80.8	78.5
Guatemala	100.0	87.7	94.8	94.3	87.2	84.7	81.9	81.1	78.8	76.6
Honduras	100.0	92.8	115.4	118.0	110.2	103.8	98.4	95.5	91.3	88.0
Nicaragua	100.0	88.1	83.9	87.4	81.1	77.3	68.4	67.3	65.0	63.8
Panama	100.0	101.3	103.4	103.3	105.9	99.8	102.5	101.5	97.0	95.1
CARIBBEAN										
Dominican Republic	100.0	97.7	102.0	103.1	104.0	102.0	103.0	102.4	101.4	98.1
Jamaica*	83.4	89.4	...	...	...	...	...	...	...	...
Trinidad & Tobago*	98.9	88.3	90.0	...	...	...	...	...	...	...
ANDEAN SOUTH AMERICA										
Bolivia	100.0	111.7	115.6	109.9	109.8	112.0	107.2	107.7	110.3	119.8
Colombia	100.0	103.7	104.4	95.8	102.6	115.8	109.2	107.1	110.3	123.8
Ecuador	100.0	109.6	111.9	99.6	106.2	123.8	104.7	107.4	111.1	114.3
Peru	100.0	96.5	103.2	89.7	83.3	80.9	77.3	79.6	82.7	92.3
Venezuela	100.0	115.6	110.8	79.9	107.0	157.4	129.4	137.8	155.3	174.2
BRAZIL AND SOUTHERN CONE										
Argentina	100.0	108.5	108.9	103.9	98.5	108.8	108.0	107.4	116.6	124.3
Brazil	100.0	98.0	103.8	103.8	93.6	90.9	90.5	89.4	88.1	90.6
Chile	100.0	80.7	83.0	73.3	73.5	73.6	68.6	71.5	75.6	90.5
Paraguay	100.0	100.0	99.9	92.4	87.7	84.2	84.4	81.4	85.4	87.9
Uruguay	100.0	96.7	96.4	103.1	94.9	86.2	95.1	92.8	81.6	82.3
LATIN AMERICA AND CARIBBEAN										
	100	100.8	102.9	97.2	97.5	103.4	99.1	98.6	99.9	105.5

SOURCE: CEPAL, *Anuario Estadístico de América Latina y el Caribe, 2004*.

* Source: Inter-American Development Bank, *Facing Up to Inequality in Latin America, 1998* (Index 1980=100).
Year 2004 are preliminary CEPAL estimates.

Table 3
NET FOREIGN DIRECT INVESTMENT, 1995-2004

(Millions of US dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NAFTA REGION										
Mexico	9,526	9,186	12,831	11,897	13,055	16,075	23,147	14,216	9,463	13,500
CENTRAL AMERICA										
Costa Rica	331	421	404	608	614	404	445	628	550	585
El Salvador	38	-7	59	1,103	162	178	289	496	68	370
Guatemala	75	77	84	673	155	230	456	111	116	125
Honduras	50	91	122	99	237	282	193	176	198	195
Nicaragua	75	120	203	218	337	267	150	204	201	261
Panama	223	416	1,299	1,203	864	700	405	78	792	467
CARIBBEAN										
Dominican Republic	414	97	421	700	1,338	953	1,079	917	310	463
Jamaica	***	***	***	***	***	***	***	***	***	***
Trinidad and Tobago	***	***	***	***	***	***	***	***	***	***
ANDEAN SOUTH AMERICA										
Bolivia	393	472	728	947	1,008	734	660	674	195	134
Colombia	712	2,784	4,753	2,033	1,392	2,069	2,493	1,258	837	2,240
Ecuador	452	500	724	870	648	720	1,330	1,275	1,555	1,200
Peru	2,550	3,488	2,054	1,582	1,812	810	1,070	2,156	1,317	1,332
Venezuela	894	1,676	5,645	3,942	2,018	4,180	3,479	-244	1,338	600
BRAZIL AND SOUTHERN CONE										
Argentina	4,112	5,348	5,507	4,965	22,257	9,517	2,005	1,413	-296	1,800
Brazil	3,475	11,667	18,608	29,192	26,886	30,498	24,715	14,108	9,894	7,100
Chile	2,205	3,681	3,809	3,144	6,203	873	2,590	1,594	1,587	7,161
Paraguay	98	144	230	336	89	113	79	11	85	80
Uruguay	157	137	113	155	235	274	314	121	271	230
LATIN AMERICA AND CARIBBEAN										
	25,789	40,301	57,599	63,677	79,342	68,890	64,901	39,196	28,491	37,848

SOURCE: CEPAL, *Anuario Estadístico de América Latina y el Caribe*, 2004.

Preliminary estimates for Year 2004 from CEPAL.

Table 4
GDP GROWTH RATES, 1995-2005
(% Change)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Average 1995-2004	2005
NAFTA REGION												
Mexico	-6.1	5.4	6.8	5.1	3.6	6.7	-0.3	0.7	1.2	4.1	2.7	3.6
CENTRAL AMERICA												
Costa Rica	3.9	0.8	5.4	8.3	8.0	1.8	1.2	2.7	6.4	4.1	4.3	3.0
El Salvador	6.2	1.8	4.2	3.8	3.4	2.0	1.7	2.1	2.0	1.8	2.9	2.5
Guatemala	5.0	3.0	4.4	5.1	3.9	3.4	2.6	2.2	2.0	2.6	3.4	3.0
Honduras	3.7	3.7	4.9	3.3	-1.5	5.6	2.7	2.6	3.5	4.3	3.3	4.5
Nicaragua	6.0	6.4	3.9	3.5	7.0	4.3	3.0	0.9	2.3	4.0	4.1	4.0
Panama	1.9	2.7	6.8	7.3	4.0	3.8	0.7	2.1	4.7	6.0	4.0	4.5
CARIBBEAN												
Dominican Republic	4.7	7.2	8.2	7.4	8.1	7.8	4.0	4.3	-0.4	1.8	5.3	3.5
Jamaica	2.2	-0.1	-1.8	-0.8	0.6	1.0	1.8	0.9	2.3	1.9	0.8	2.2
Trinidad & Tobago	4.2	4.4	4.0	5.3	7.8	9.2	4.3	3.0	4.2	6.2	5.3	6.0
ANDEAN SOUTH AMERICA												
Bolivia	4.7	4.5	4.9	5.0	0.3	2.3	1.6	2.7	2.4	3.8	3.2	3.5
Colombia	4.9	1.9	3.3	0.8	-3.8	2.4	1.5	1.9	4.8	3.3	2.1	4.0
Ecuador	2.1	3.0	5.2	2.2	-5.7	0.9	5.5	3.8	2.3	6.3	2.6	3.0
Peru	8.6	2.5	6.9	-0.6	0.9	2.8	0.1	4.9	3.8	4.6	3.4	5.5
Venezuela	5.9	-0.4	7.4	0.3	-5.7	3.8	3.4	-8.9	-9.7	18.0	1.4	7.0
BRAZIL AND SOUTHERN CONE												
Argentina	-2.9	5.5	8.0	3.8	-3.4	-0.8	-4.4	-10.8	8.7	8.2	1.2	7.3
Brazil	4.2	2.5	3.1	0.2	0.9	3.9	1.3	1.5	0.6	5.2	2.3	3.0
Chile	9.0	6.9	6.7	3.3	-0.5	4.5	3.5	2.0	3.3	5.8	4.4	6.0
Paraguay	5.7	0.4	3.0	0.8	-1.5	-3.3	2.0	-1.6	3.8	2.8	1.2	2.8
Uruguay	-2.4	5.2	5.4	4.4	-3.5	-1.9	-3.6	-12.7	3.0	12.0	0.6	7.0
LATIN AMERICA AND CARIBBEAN												
	1.1	3.7	5.2	2.3	0.5	3.7	0.4	-0.6	2.0	5.9	2.4	4.3

SOURCE: CEPAL, *Anuario Estadístico de América Latina y el Caribe, 2004*.

Preliminary estimates for 2005 from CEPAL, *América Latina y el Caribe: Proyecciones 2005*, April 2005.

Table 5
ANNUAL INFLATION RATES, 1995-2005
(% change in CPI)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
NAFTA REGION											
Mexico	52.0	27.7	15.7	18.6	12.3	9.0	4.4	5.7	4.0	5.2	4.4
CENTRAL AMERICA											
Costa Rica	22.6	13.9	11.2	12.4	10.1	11.0	11.0	9.7	9.9	13.1	11.5
El Salvador	11.4	7.4	1.9	4.2	-1.0	4.3	1.4	2.8	2.5	5.3	4.1
Guatemala	8.6	10.9	7.1	7.5	4.9	5.8	8.9	6.3	5.9	9.2	8.9
Honduras	26.8	25.3	12.7	15.6	10.9	10.1	8.8	8.1	6.8	9.2	9.1
Nicaragua	11.1	12.1	7.3	18.5	7.2	9.9	4.7	4.0	6.6	8.9	9.7
Panama	0.8	2.3	-0.5	1.4	1.5	0.7	0.0	1.9	1.7	2.5	2.1
CARIBBEAN											
Dominican Republic	9.2	4.0	8.4	7.8	5.1	9.0	4.4	10.5	42.7	28.7	12.3
Jamaica	21.7	15.8	9.2	7.9	6.8	6.1	8.7	7.3	14.1	13.7	**
Trinidad & Tobago	5.3	4.3	3.5	5.6	3.4	5.6	3.2	4.3	3	3.2	**
ANDEAN SOUTH AMERICA											
Bolivia	12.6	7.9	6.7	4.4	3.1	3.4	0.9	2.5	3.9	4.6	5.0
Colombia	19.5	21.6	17.7	16.7	9.2	8.8	7.6	7.0	6.5	5.5	5.1
Ecuador	22.8	25.6	30.6	43.4	60.7	91.0	22.4	9.4	6.1	1.9	2.1
Peru	10.2	11.8	6.5	6.0	3.7	3.7	-0.1	1.5	2.5	3.5	2.3
Venezuela	56.6	103.2	37.6	29.9	20.0	13.4	12.3	31.2	27.1	19.2	19.4
BRAZIL AND SOUTHERN CONE											
Argentina	1.6	0.1	0.3	0.7	-1.8	-0.7	-1.5	41.0	3.7	6.1	9.5
Brazil	22.4	9.6	5.2	1.7	8.9	6.0	7.7	12.5	9.3	7.6	6.6
Chile	8.2	6.6	6.0	4.7	2.3	4.5	2.6	2.8	1.1	2.4	2.5
Paraguay	10.5	8.2	6.2	14.6	5.4	8.6	8.4	14.6	9.3	2.8	4.9
Uruguay	35.4	24.3	15.2	8.6	4.2	5.1	3.6	25.9	10.2	7.6	6.5
LATIN AMERICA AND CARIBBEAN											
	25.9	18.2	10.4	10.3	9.5	8.7	6.1	12.2	8.5	7.4	6.6

SOURCE: CEPAL, *Anuario Estadístico de América Latina y el Caribe, 2004*.

Preliminary estimates for 2005 from CEPAL, *América Latina y el Caribe: Proyecciones 2005*, April 2005.

Table 6

EXPORTS, IMPORTS (GOODS & SERVICES) AND CURRENT ACCOUNT BALANCE, 2001-2004

(Millions of US dollars)

	2001			2002			2003			2004		
	Exports	Imports	C/Account									
NAFTA REGION												
Mexico	171,103	190,494	-18,103	173,454	185,419	-13,792	177,551	187,680	-8,741	202,865	213,977	-7,200
CENTRAL AMERICA												
Costa Rica	6,820	7,295	-737	7,140	7,719	-916	8,190	8,483	-929	8,524	9,164	-882
El Salvador	3,587	5,636	-190	3,803	5,914	-412	3,987	6,430	-734	4,079	6,775	-714
Guatemala	3,905	5,568	-1,253	3,964	6,857	-1,235	4,107	7,302	-1,051	4,465	8,093	-1,102
Honduras	2,436	3,336	-293	2,511	3,508	-219	2,661	3,821	-258	2,862	4,294	-484
Nicaragua	947	1,996	-932	907	1,953	-870	997	2,092	-860	1,102	2,399	-991
Panama	7,997	8,122	-174	7,567	7,625	-92	7,608	7,437	-408	8,594	8,120	-35
CARIBBEAN												
Dominican Republic	8,387	10,852	-741	8,236	10,151	-798	8,875	9,100	865	9,166	9,261	1,124
Jamaica	**	**	**	**	**	**	**	**	**	**	**	**
Trinidad & Tobago	**	**	**	**	**	**	**	**	**	**	**	**
ANDEAN SOUTH AMERICA												
Bolivia	1,521	2,079	-274	1,555	2,072	-352	1,872	1,976	35	2,350	2,209	225
Colombia	14,952	14,410	-1,251	14,182	15,409	-1,452	15,527	16,642	-1,345	18,303	19,128	-1,267
Ecuador	5,693	4,927	-550	6,121	7,828	-1,358	7,095	7,858	-455	8,618	8,892	128
Peru	8,517	9,723	-1,184	9,267	9,946	-1,127	10,664	10,864	-1,061	14,157	12,610	-16
Venezuela	27,648	21,300	2,062	27,841	17,329	7,599	27,738	13,834	11,524	39,217	19,629	15,594
BRAZIL AND SOUTHERN CONE												
Argentina	30,846	32,822	-4,429	28,684	13,135	9,627	33,231	18,485	7,941	38,622	27,578	3,653
Brazil	67,545	72,443	-23,213	69,913	61,749	-7,637	83,552	63,851	4,016	106,994	78,492	11,094
Chile	22,571	21,817	-1,192	22,509	20,909	-885	25,851	23,602	-594	37,319	28,672	2,908
Paraguay	2,431	3,286	-275	2,426	2,488	73	2,850	2,869	146	3,230	3,625	-223
Uruguay	3,276	4,193	-545	2,693	2,492	322	3,051	2,707	52	3,828	3,509	28
LATIN AMERICAN AND CARIBBEAN												
	390,624	421,647	-53,368	393,194	383,735	-13,571	425,871	396,430	8,102	514,800	467,944	21,845

SOURCE: CEPAL, *Anuario Estadístico de América Latina y el Caribe, 2003 and 2004.*

Preliminary estimates for Year 2004 from CEPAL.

Table 7
GROSS DISBURSED EXTERNAL DEBT, 1995-2004

(Millions of US dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NAFTA REGION										
Mexico	165,600	156,443	149,028	160,258	166,380	148,652	144,527	140,097	140,555	137,105
CENTRAL AMERICA										
Costa Rica	3,259	2,859	2,640	2,872	3,057	3,151	3,243	3,338	3,753	3,833
El Salvador	2,168	2,517	2,689	2,646	2,789	2,831	3,148	3,987	4,687	4,792
Guatemala	2,107	3,026	3,197	3,618	3,831	3,929	4,100	4,200	4,548	3,484
Honduras	4,243	4,121	4,073	4,369	4,691	4,711	4,757	4,922	5,122	5,535
Nicaragua	10,248	6,094	6,001	6,287	6,549	6,660	6,374	6,363	6,596	5,165
Panama	3,938	5,069	5,051	5,180	5,412	5,604	6,263	6,349	6,502	6,639
CARIBBEAN										
Dominican Republic	3,999	3,807	3,572	3,546	3,661	3,682	4,177	4,538	5,899	6,400
Jamaica	3,452	3,232	3,278	3,306	3,024	3,375	4,146	4,348	4,192	4,192
Trinidad & Tobago	1,905	1,876	1,565	1,471	1,585	1,680	1,638	1,596	1,526	1,526
ANDEAN SOUTH AMERICA										
Bolivia	4,523	4,366	4,234	4,655	4,574	4,461	4,412	4,300	5,042	4,735
Colombia	26,340	31,116	34,409	36,681	36,733	36,131	39,109	37,336	38,193	37,985
Ecuador	13,934	14,586	15,099	16,400	16,282	13,564	14,376	16,236	16,586	16,870
Peru	33,378	33,805	28,642	29,477	28,704	28,150	27,195	27,840	29,708	29,792
Venezuela	37,537	34,117	37,242	35,087	37,016	36,437	35,398	35,114	38,043	37,752
BRAZIL AND SOUTHERN CONE										
Argentina	98,547	110,613	125,052	141,929	145,289	146,575	140,214	134,147	145,583	147,319
Brazil	165,447	186,561	208,375	259,496	241,468	236,157	226,067	227,689	235,415	221,384
Chile	21,736	26,272	29,034	32,591	34,758	37,177	38,032	40,395	41,179	43,931
Paraguay	1,742	1,801	1,927	2,133	2,697	2,819	2,652	2,866	2,871	2,352
Uruguay	5,193	5,387	5,459	6,036	5,618	6,116	5,855	8,328	8,626	10,837
LATIN AMERICA AND CARIBBEAN										
	598,746	633,475	666,750	754,365	750,670	727,977	711,086	709,257	740,195	727,226

SOURCE: CEPAL, *Anuario Estadístico de América Latina y el Caribe, 2004*.

CEPAL, *Balance Preliminar de las Economías de América Latina y el Caribe, 2003 and 2004*.

Year 2004 are preliminary CEPAL estimates.

Table 8
DEBT/EXPORT RATIOS, 1995-2004
(as a percentage of exports of goods and services)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NAFTA REGION										
Mexico	176.0	146.6	122.5	124.1	112.3	82.5	84.5	80.8	79.2	67.6
CENTRAL AMERICA										
Costa Rica	64.2	59.2	49.4	41.7	37.1	40.7	47.5	46.7	45.8	45.0
El Salvador	123.4	114.3	92.3	86.8	87.8	77.3	87.6	104.9	117.6	117.5
Guatemala	107.2	108.2	100.2	103.8	110.1	101.7	105.0	105.9	110.7	78.0
Honduras	252.1	214.4	185.9	180.2	210.3	189.2	195.8	196.1	192.4	193.4
Nicaragua	995.6	841.7	665.6	665.5	680.2	604.4	673.4	701.2	661.4	468.8
Panama	66.6	68.4	60.2	63.0	75.8	71.5	78.3	83.9	85.5	77.2
CARIBBEAN										
Dominican Republic	66.4	61.5	50.6	47.4	45.8	41.1	49.8	55.1	66.5	69.8
Jamaica	101.7	97.3	96.4	97.7	87.0	94.1	123.6	138.7	***	***
Trinidad & Tobago	68.1	66.6	52.3	50.2	50.4	37.7	36.3	39.4	***	***
ANDEAN SOUTH AMERICA										
Bolivia	353.9	332.6	299.5	343.5	349.0	303.4	290.1	276.5	269.4	201.5
Colombia	253.1	236.5	242.0	273.0	262.8	229.1	260.1	263.3	246.0	207.5
Ecuador	280.7	259.9	249.7	327.7	304.6	226.6	254.7	265.3	233.8	195.8
Peru	503.2	463.6	341.9	391.4	373.7	328.9	318.6	300.4	278.6	210.4
Venezuela	164.4	135.0	147.9	183.4	165.9	105.0	126.2	126.1	137.2	96.3
BRAZIL AND SOUTHERN CONE										
Argentina	444.3	389.7	403.9	455.1	520.3	470.6	453.0	467.7	438.1	381.4
Brazil	354.4	355.3	352.1	441.6	437.4	365.7	334.7	325.7	281.8	206.9
Chile	135.7	130.0	133.4	160.7	165.3	159.6	169.7	179.5	159.3	117.7
Paraguay	37.5	41.0	48.4	51.1	93.4	99.1	108.5	118.1	100.7	72.8
Uruguay	153.6	140.0	129.4	145.5	158.1	167.1	179.5	309.2	282.7	283.1
LATIN AMERICA AND CARIBBEAN										
	238.6	214.7	203.7	230.6	218.8	178.3	181.9	180.4	173.8	141.3

SOURCE: CEPAL, *Anuario Estadístico de América Latina y el Caribe 2003 and 2004*,
Year 2004 are preliminary CEPAL estimates,

* Gross disbursed external debt includes the public-and-private sector external debt. Also includes International Monetary Funds loans.

Table 9

EXCHANGE RATES AND IMF AGREEMENTS, 2005

Currency	EXCHANGE RATE		% change	Current Exchange Rate Regime	IMF Agreements (Dates)	
	January 2, 2004	August 8, 2005				
NAFTA REGION						
Mexico	peso	11.17	10.60	5.10%	Independent Float	n/a
CENTRAL AMERICA						
Costa Rica	colón	418.74	481.42	-14.97%	Managed Float	n/a
El Salvador	colón/U.S. dollar	8.75	8.75	0.00%	Dollarized	n/a
Guatemala	quetzal	8.03	7.59	5.48%	Managed Float	
Honduras	lempira	17.97	18.93	-5.34%	Managed Float	PRGF ¹ (2/04-2/07)
Nicaragua	córdoba oro balboa/U.S.	15.75	16.84	-6.92%	Managed Float	PRGF ¹ (12/02-12/05)
Panama	dollar	1.00	1.00	0.00%	Dollarized	n/a
CARIBBEAN						
Dominican Republic	peso	35.00	29.07	16.94%	Managed Float	Stand-by (1/05-5/07)
Jamaica	Jamaican dollar	60.61	62.20	-2.62%	Independent Float	n/a
Trinidad & Tobago	Trin. dollar	6.27	6.27	0.00%	Independent Float	n/a
ANDEAN SOUTH AMERICA						
Bolivia	boliviano	7.86	8.08	-2.80%	Managed Float	Stand-by (4/03-3/06)
Colombia	peso	2779.08	2307.69	16.96%	Independent Float	Stand-by (5/05-11/06)
Ecuador	sucre/U.S. dollar	1.00	1.00	0.00%	Dollarized	n/a
Peru	nuevo sol	3.48	3.25	6.61%	Independent Float	Stand-by (6/04-8/06)
Venezuela	bolivar	1600	2147	-34.19%	Managed and Licensed	n/a
BRAZIL AND SOUTHERN CONE						
Argentina	peso	2.95	2.87	2.71%	Independent Float	Stand-by (9/03-9/06)
Brazil	real	2.87	2.33	18.82%	Independent Float	n/a
Chile	peso	588	545	7.31%	Independent Float	n/a
Paraguay	guarani	6100	5975	2.05%	Independent Float	Stand-by (12/03-9/06)
Uruguay	peso	29.80	24.40	18.12%	Managed Float	Stand-by (6/05-6/08)

SOURCES: Latin American Weekly Report, 16 August 2005; Central Banks for Jamaica and Trinidad & Tobago; IMF Homepage www.imf.org.

Key for IMF Agreements:

Stand-by is the most common type of credit arrangement designed to provide short-term financial assistance.

1: PRGF (Poverty Reduction and Growth Facility) is a concessional arrangement providing credit at an interest rate of 0.5% to eligible low-income members.

Table 10
SOCIAL ENVIRONMENT, 2005

GDP PER CAPITA

	POPULATION (Millions)	AVG. POP. GROWTH %	ILLITERATE POP. %	(PPP \$U.S.)*	ANNUAL GROWTH %	INCOME INEQUALITY	HDI (World Rank)***	POPULATION IN POVERTY	UNEMPLOYMENT RATE %
	2003	2003-15	2003	2003	1990-2003	GINI index**	2003	(Year) %	2004
NAFTA REGION									
Mexico	104.3	1.1	9.7	\$9,168	1.4	54.6	53	(2002) 39.4%	3.8
CENTRAL AMERICA									
Costa Rica	4.2	1.5	4.2	\$9,606	2.6	46.5	47	(2002) 20.3%	6.7
El Salvador	6.6	1.6	20.3	\$4,781	2.1	53.2	104	(2001) 48.9%	6.3
Guatemala	12.0	2.3	30.9	\$4,148	1.1	59.9	117	(2002) 60.2%	(2003) 3.4
Honduras	6.9	2.0	20.0	\$2,665	0.2	55.0	116	(2002) 77.3%	8.0
Nicaragua	5.3	1.9	23.3	\$3,262	0.9	43.1	112	(2001) 69.3%	(2003) 10.2
Panama	3.1	1.6	8.1	\$6,854	2.4	56.4	56	(2002) 34.0%	(2003) 15.6
CARIBBEAN									
Dominican Republic	8.6	1.3	12.3	\$6,823	4.0	47.4	95	(2002) 44.9%	17.0
Jamaica	2.6	0.4	12.4	\$4,104	0.0	37.9	98	(1998) 15.9%	13.0
Trinidad and Tobago	1.3	0.3	1.5	\$10,766	3.2	40.3	57	(1997) 22.0%	7.8
ANDEAN SOUTH AMERICA									
Bolivia	8.8	1.7	13.5	\$2,587	1.3	44.7	113	(2002) 62.4%	(2003) 9.5
Colombia	44.2	1.4	5.8	\$6,702	0.4	57.6	69	(2002) 51.1%	15.6
Ecuador	12.9	1.4	9.0	\$3,641	0.1	43.7	82	(2002) 49.0%	11.0
Peru	27.2	1.4	12.3	\$5,260	2.1	49.8	79	(2001) 54.8%	9.5
Venezuela	25.8	1.6	7.0	\$4,919	-1.5	49.1	75	(2002) 48.6%	15.3
BRAZIL AND SOUTHERN CONE									
Argentina	38.0	1.0	2.8	\$12,106	1.3	52.2	34	(2002) 45.4%	13.8
Brazil	181.4	1.2	11.6	\$7,790	1.2	59.3	63	(2001) 37.5%	11.5
Chile	16.0	1.0	4.3	\$10,274	4.1	57.1	37	(2003) 18.8%	8.8
Paraguay	5.9	2.2	8.4	\$4,684	-0.6	57.8	88	(2001) 61.0%	(2003) 11.2
Uruguay	3.4	0.6	2.3	\$8,280	0.9	44.6	46	(2002) 15.4%	13.0

SOURCES: UNDP, *Human Development Report 2005*; Population in poverty and unemployment rates are from CEPAL, 2004.

* GDP per capita (Purchasing Power Parity in \$U.S.). 1 PPP dollar has the same purchasing power in the domestic economy as 1 U.S. dollar has in the U.S. economy.

** The Gini index measures inequality over the entire distribution of income or consumption. A value of 0 represents perfect equality, and a value of 100 perfect inequality.

*** The Human Development Index (HDI) ranks 177 countries according to three aspects of human development: longevity (life expectancy at birth), knowledge (combination of literacy rate and enrollment ratio), and a decent standard of living (GDP per capita - PPP in \$U.S.).

Table 11
POLITICAL ENVIRONMENT, 2005

	<i>Level of Democratic Consolidation</i> ¹			<i>Corruption Perception</i> ⁴		<i>Current Political Environment</i>		
	Election Inaugurating Civilian Rule	Political Rights ²	Civil Liberties ³	Index	Rank	Current President / PM	Term	Control of Legislature
NAFTA REGION								
Mexico	1920	2	2	3.6	64	Fox	2000-2006	Opposition
CENTRAL AMERICA								
Costa Rica	1949	1	1 ↑	4.9 ↑	41	Pacheco	2002-2006	Opposition
El Salvador	1984	2	3	4.2 ↑	51	Saca	2004-2009	Govt. Coalition
Guatemala	1985*	4	4	2.2 ↓	122	Berger	2004-2008	Govt. Coalition
Honduras	1982	3	3	2.3	114	Maduro	2001-2005	Opposition
Nicaragua	1984	3	3	2.7 ↑	97	Bolanos	2001-2006	Opposition
Panama	1994	1	2	3.7 ↑	62	Torrijos	2004-2009	Government
CARIBBEAN								
Dominican Republic	1963	2	2	2.9 ↓	87	Fernandez	2004-2008	Opposition
Jamaica	1962	2	3	3.3 ↓	74	Patterson	2002-2007	Government
Trinidad & Tobago	1962	3	3	4.2 ↓	51	Manning	2002-2007	Government
ANDEAN SOUTH AMERICA								
Bolivia	1980*	3 ↓	3	2.2 ↓	122	Rodriguez	2003-2007	Govt. Coalition
Colombia	1958	4	4	3.8 ↑	60	Uribe	2002-2006	Government
Ecuador	1978*	3	3	2.4 ↑	112	Palacio	2005-2007	Opposition
Peru	1980*	2	3	3.5 ↓	67	Toledo	2001-2006	Opposition
Venezuela	1958*	3	4	2.3 ↓	114	Chavez	2000-2006	Government
BRAZIL AND SOUTHERN CONE								
Argentina	1983*	2 ↑	2 ↑	2.5	108	Kirchner	2003-2007	Opposition
Brazil	1989	2	3	3.9	59	Lula da Silva	2002-2006	Govt. Coalition
Chile	1989	1 ↑	1	7.4	20	Lagos	2000-2005	2 Houses Split
Paraguay	1993	3 ↑	3	1.9 ↑	140	Duarte	2003-2008	Opposition
Uruguay	1985	1	1	6.2 ↑	28	Vazquez	2005-2010	Government

1. As measured in *Freedom in the World 2005 : Civic Power and Electoral Politics*. (www.freedomhouse.org/ratings). *Interrupted democracies

2. Freedom House definition: Those rights that enable people to participate freely in the political process. On this scale 1 represents the most free and 7 the least free.

3. Freedom House definition: Freedoms to develop views, institutions and personal autonomy apart from the state. On this scale 1 represents the most free and 7 the least free.

4. As measured by Transparency International, *Corruption Perceptions Index 2004* (www.transparency.org). Focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The country ranks measure the corruption level in 146 countries as perceived by business people, risk analysts, investigative journalists and the general public. The scores used range from 10 (country perceived as virtually corruption-free), down to close to 0 (country perceived as almost totally corrupt).

▼ ↑ Up or down indicate, respectively, an improvement or a worsening of the political environment from 2003.

Table 12
FISCAL DEFICIT/SURPLUS, 1995-2004
 (% of GDP)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
NAFTA REGION										
Mexico	0.0	0.0	-0.7	-1.2	-1.1	-1.1	-0.7	-1.2	-0.6	-0.3
CENTRAL AMERICA										
Costa Rica	-3.5	-4.0	-2.9	-2.5	-2.2	-3.0	-2.9	-4.3	-2.9	-3.0
El Salvador	-0.6	-1.8	-1.1	-2.0	-2.1	-2.3	-3.6	-3.1	-2.7	-1.3
Guatemala	-0.5	0.0	-0.8	-2.2	-2.8	-1.8	-1.9	-1.0	-2.3	-1.3
Honduras	-3.1	-3.5	-2.8	-1.2	-4.3	-5.7	-5.9	-5.2	-5.9	-3.5
Nicaragua	-0.3	-0.9	-0.8	-1.2	-3.8	-5.0	-8.7	-4.1	-3.3	-3.8
Panama	-1.7	0.2	-0.3	-4.5	-2.0	-1.1	-1.7	-1.9	-2.5	**
CARIBBEAN										
Dominican Republic	0.1	-1.6	-1.6	-1.0	-1.8	-2.1	-2.4	-2.7	-3.8	-2.7
Jamaica	**	**	**	**	**	**	**	**	**	**
Trinidad and Tobago	**	**	**	**	**	**	**	**	**	**
ANDEAN SOUTH AMERICA										
Bolivia	-1.3	-1.7	-3.6	-4.0	-3.4	-3.9	-7.4	-9.0	-7.7	-6.1
Colombia	-2.1	-3.3	-3.5	-4.7	-5.3	-6.4	-5.4	-5.0	-4.8	-5.6
Ecuador	-1.4	-2.4	-1.2	-4.1	-2.9	0.1	-0.7	-0.8	-0.9	-1.7
Peru	-3.4	-1.4	-0.8	-1.1	-3.1	-2.8	-2.8	-2.1	-1.8	-1.3
Venezuela	-4.3	0.6	1.9	-3.8	-1.6	-1.6	-4.2	-3.5	-4.3	-3.3
BRAZIL AND SOUTHERN CONE										
Argentina	-1.9	-2.8	-1.4	-1.8	-3.0	-2.1	-3.8	-0.3	0.3	1.3
Brazil	-5.0	-3.7	-3.0	-4.0	-3.3	-1.2	-1.3	-0.3	-1.0	-1.2
Chile	3.1	2.2	2.1	0.4	-2.1	-0.6	-0.5	-1.2	-0.4	1.9
Paraguay	-0.3	-1.1	-1.4	-1.0	-3.6	-4.3	-1.1	-3.0	-0.4	0.7
Uruguay	-1.5	-1.4	-1.4	-0.9	-4.0	-4.1	-4.3	-4.6	-3.2	-3.1
LATIN AMERICA AND CARIBBEAN										
	-1.7	-1.5	-1.3	-2.2	-2.9	-2.7	-3.3	-3.0	-2.8	-2.2

SOURCE: CEPAL, *Balance Preliminar de las Economías de América Latina y el Caribe, 2004*.
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